

AR20

SPAR AEROSPACE PRODUCTS LTD.

Annual Report 1973



The Front Cover

The gears transmitting military muscle power to the wheels of an imaginary vehicle in *The Triumph of Maximilian I* (published 1526) remind us that the roots of some of our proud 20th century technology reach deep into the past.

The superb woodcut is one of 137 comprising *The Triumph*.

1973 Highlights

Designated an "Approved Supplier"

"Having qualified to manufacture and control primary parts and assemblies which must consistently meet exacting specifications and qualification tests", Spar, early in 1973, was designated a primary parts supplier to Bell Helicopter Company of Fort Worth, Texas.

Only two other gear manufacturers have been so approved.



Acquisition of LIM expertise . . .

In May, a British team of highly qualified engineers joined Spar for the development of advanced linear induction motor (LIM) propulsion systems.



. . . followed by selection as a supplier

Krauss-Maffei A.G. of Germany selected Spar as a supplier of linear induction motors (LIMs) for the Ontario Government's GO-URBAN Transit Demonstration System project in the grounds of the Canadian National Exhibition in Toronto.



Spar's growing business volume with General Electric

Spar delivered to General Electric Company a qualified accessory gearbox, power take-off and radial shaft for the T700 engine, scheduled for U.S. Army UTTAS and AAH helicopters.

A production order was received for 726 accessory gearboxes for the G.E. J85-21 engine to be installed in Northrop F-5E aircraft.



STEM antennas travel on Mars-bound spacecraft

The Russian satellites Mars 6 and 7, launched in August 1973, carried STEM antenna systems designed and manufactured by Spar for the Paris Observatory "stereo" experiment which studied solar radio emissions while en route to Mars. The French scientists controlling the experiment reported that the deploying mechanisms for the six STEM antennas (three each on Mars 6 and 7) worked perfectly.

SPAR AEROSPACE PRODUCTS LTD.

Directors

D. S. BEATTY, L. D. CLARKE*, R. B. DODWELL*, W. H. JACKSON*, DR. P. A. LAPP, R. A. PERIGOE,
D. A. B. STEEL , J. P. WRIGHT

**members of the Executive Committee*

Officers

Chairman of the Board.....	R. B. DODWELL
President and Chief Executive Officer.....	L. D. CLARKE
Vice-President, Finance, and Treasurer.....	G. J. AUBREY
Vice-President, Contracts and Pricing.....	G. B. GOMES
Vice-President, and Assistant General Manager, Engineering	J. E. LOCKYER
Vice-President, Marketing and Planning.....	J. D. MACNAUGHTON
Vice-President, Sales.....	R. E. MARCILLE
Vice-President, Personnel and Employee Relations.....	E. V. NIELD
Vice-President, and Assistant General Manager, Operations	G. R. RUTLEDGE
Secretary.....	D. A. B. STEEL

Transfer Agents and Registrars: Montreal Trust Company,
Toronto, Montreal, Winnipeg

Auditors: Clarkson, Gordon & Co.

Head Office: 825 Caledonia Road • Toronto • Canada • M6B 3X8



SPAR AEROSPACE PRODUCTS LTD.

President's Report

Spar's scope of operations continued to grow during 1973 and the company's long term prospects were significantly enhanced by its entry into the ground transportation market.

Revenues in 1973 increased by 17% from \$15.8 million to \$18.5 million. Earnings after income tax totalled \$407,000 or 28¢ per weighted average common share outstanding, against \$652,000 or 49¢ per share for the preceding year. On a fully diluted basis, earnings in 1973 were 24¢ per share. Shareholders' equity increased from \$3.6 million to \$4 million after payment of \$118,000 in dividends representing the first full year of regular quarterly dividends.

Continuing prior years' practice, research and development expenses of \$350,792 (compared to \$293,504 in 1972) were written off to earnings. Such expenses were net of Government grants and assistance of approximately \$39,000 (compared to \$206,000 in 1972).

In addition, in 1973 Spar invested further in its deferred development program related to the General Electric T700 helicopter jet engine gearbox and commenced work on the Viking hovercraft transmission and linear induction motor (LIM) programs. These programs required a Spar investment of \$395,807 in 1973 plus Government assistance on the LIM program of approximately \$250,000. In accordance with our policy of amortizing deferred development costs over five years, \$199,200 was charged to income in 1973 (\$120,000 in 1972).

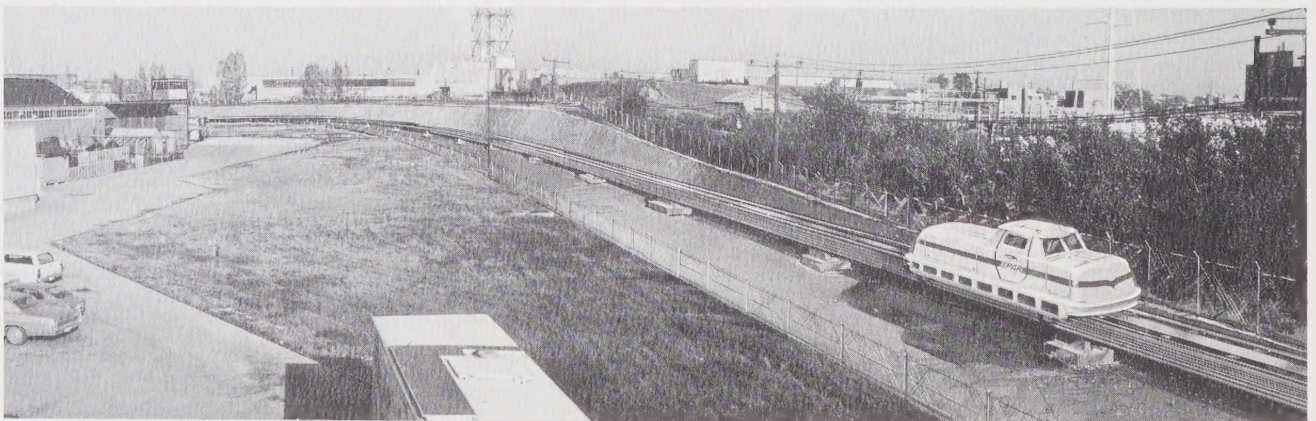
Spar's repair and overhaul activities showed continued growth during the year. The ready availability of parts for our transmission overhaul program as a result of the Canadian Government's decision in 1971 to place a three year advance order for spares, materially assisted in the achievement of smooth operations in this sector of our business.

The principal activity in Spar's space engineering operations continued to be in support of the Communications Technology Satellite (CTS) program. As the year ended, a substantial portion of the equipment for the satellite was undergoing tests in our space flight assembly area prior to delivery to the Canadian Government's assembly and test centre at Shirley Bay, Ottawa. For this program Spar has brought together a broadly based team of subcontractors and suppliers from across Canada, the United States and Europe. Space projects are becoming increasingly multi-national in their engineering and manufacturing phases as well as in their operational application.

Engineering studies and development work for the Canadian Armed Forces progressed with respect to military applications involving Spar's electro-optical capabilities. Government support was maintained in the further refinement of your company's infra-red acquisition system for shipboard use.

Work in the gear manufacturing shop increased dramatically during the last quarter of the year with the build-up resulting largely from the receipt early in the year, of a substantial order for J85 jet engine gearboxes

Artist's concept, superimposed on a photograph, of the 1,275 ft. track now under construction at the Spar plant for testing linear induction motor (LIM) propulsion systems.



from the General Electric Company. Spar's ability to undertake this work on a competitive basis was materially improved through the acquisition in 1973, of new tape-controlled machine tools through the Canadian Government's industry modernization program.

Undoubtedly, the most significant event of the year was the acquisition by Spar of the LIM engineering team from the United Kingdom. It is worth noting that this step placed Spar in the vanguard of the world's suppliers of linear motors. Subsequently, Spar obtained an order from Krauss-Maffei A.G. of Munich, Germany for linear induction motors to be designed for the demonstration system to run at the Canadian National Exhibition in Toronto in 1975. Late last summer, engineering plans were completed for the construction in 1974 at the Spar plant, of a 375 metre (1,250 ft.) track to be used for the testing and development of LIMs and other related electromagnetic transportation equipment. This facility will provide Spar with a capability unique in Canada.

The operating results of Spar's U.S. subsidiary, Astro Research Corporation, suffered during the year due to extensive budgetary cutbacks effected by the U.S. National Aeronautics and Space Administration (NASA) which, until recently, had been Astro's principal customer. While these cutbacks had been foreseen, their extent was greater than anticipated and it was not until the last quarter of the year that Astro began to show improved results from the redeployment of its sales efforts toward other customers interested in its specialized capabilities.

Outlook

Over the past six years Spar has demonstrated its ability to increase its revenues in a reasonably consistent pattern from \$5.5 million to almost \$18.5 million. Based on orders presently in hand or in the course of negotiation, 1974 should show a continuation of this trend of growth. Our main challenge will be to increase your company's earnings commensurate with its growth in revenue.

During the early years of an advanced technology company, there are of necessity, periods requiring high investment in order to secure a position in the market place and to ensure continued growth. Since mid-1969, Spar has been reinvesting its profits heavily in the development of its gear and transmission expertise, in the conviction that such investment would eventually provide a large and stable base of earnings on which to build future new ventures such as are now emerging in the transportation market. Your management is optimistic that during the second half of 1974 Spar will cross

over from a net investment to a net recovery position in the gear and transmission sector, and that in 1975 the increasing gear and transmission business will commence to make its long awaited contribution to company profits.

In repair and overhaul (R & O), emphasis in 1974 will be directed at maintaining the growth pattern with respect to commercial work. If as anticipated, commercial R & O continues to increase, it may soon become necessary to consider the establishment of additional repair and overhaul facilities to take advantage of these opportunities.

With our \$12.5 million contract for the final construction phase of the CTS program, Spar's involvement in this project will approach completion during the second half of 1974. At that time management will be in a position to redirect a sizeable portion of your company's engineering efforts toward the development of remotely operated manipulators for application in the proposed U.S. Government shuttle space program and in growing markets of other hostile environments such as underwater exploration, the Arctic and nuclear energy generation.

After many years of slow development, the market for Spar's remote sensing system appears now to be emerging. It is probable that during 1974 your company will be awarded a contract for the development of an infra-red acquisition system for operational assignment to the Canadian Armed Forces.

Spar's major development tasks for 1974 are the construction of the LIM test track and the parallel development of advanced linear induction motors and related electronic control equipment. These will be designed for application to modern magnetic levitation systems, for both urban and inter-city transportation. Your directors are optimistic that as Spar's capability in this area becomes increasingly evident, other orders will be forthcoming in addition to that already received from Krauss-Maffei.

Spar's U.S. subsidiary, Astro Research Corporation, will continue its program initiated in 1973 to expand and diversify its markets. Along with new applications for its patented Astromast, Astro will seek sales opportunities for Spar's patented STEM designs which may be more readily marketed from a U.S. location. With a forecast of doubled sales, Astro is expected to contribute to Spar's overall profitability in the current year.

Conclusion

The year 1974 will continue to show considerable growth in sales volume, particularly in gear manufacturing.

Growth in earnings will therefore be increasingly dependent upon achievement of profitability in this area. Conversion from a job shop operation to volume production is moving ahead satisfactorily and hopefully, before the end of 1974 Spar's profitability should increase substantially.

It is with deep regret that we report the death in November, 1973, of Earl K. Brownridge who joined our Board of Directors in 1972 and made a valued contribution to the operations of the company.

In closing, on behalf of the board of directors I would

like to thank all employees and shareholders for their continued support and encouragement generously provided during the past year.

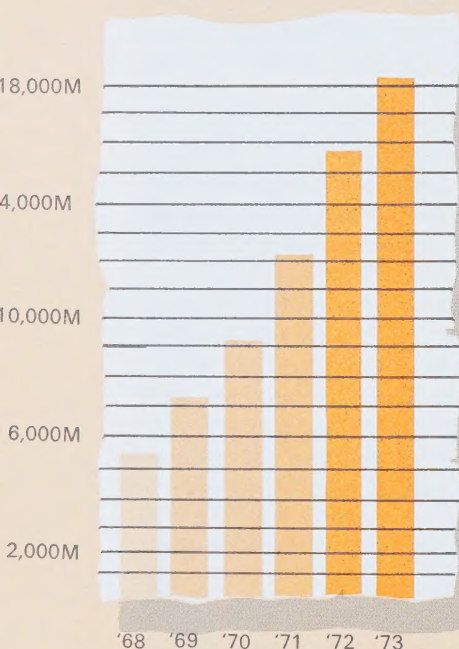
On behalf of the Board,

L. D. Clarke

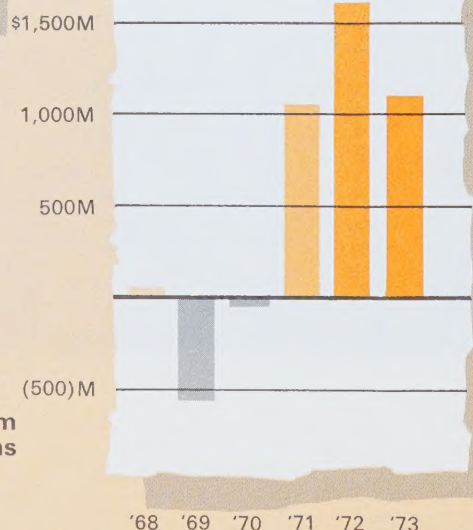
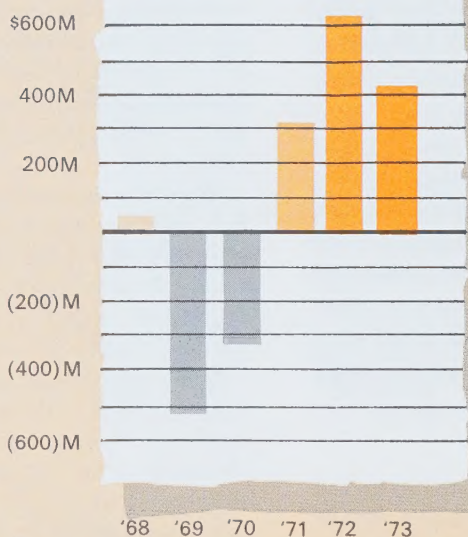
L. D. CLARKE
President

March 29, 1974.

Revenues

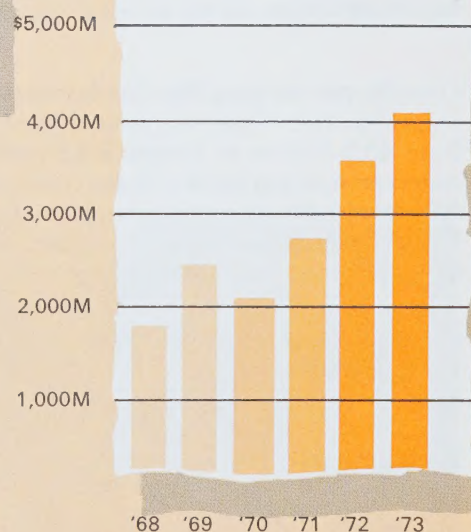


M = \$1,000



Cash flow from operations

Earnings (Loss) before extraordinary items



Shareholders' Equity

Consolidated Statement of Income and Retained Earnings

For the year ended December 31, 1973

	1973	1972
Revenues.....	\$18,489,797	\$15,843,398
Cost of sales including all expenses except items shown below.....	14,874,784	12,174,199
Administrative and selling expenses.....	1,904,821	1,644,743
Research and development costs.....	350,792	293,504
Deferred development amortization.....	199,200	120,101
Depreciation and amortization.....	312,412	277,922
Interest expense (net) (note 4).....	62,096	67,142
	<u>17,704,105</u>	<u>14,577,611</u>
Income before income taxes and extraordinary item.....	785,692	1,265,787
Income taxes (includes deferred taxes of \$264,000 in 1973; \$442,000 in 1972).....	378,396	614,000
Income for the year before extraordinary item.....	407,296	651,787
Extraordinary item:		
Income tax reduction realized on carry-forward of a prior year's loss.....		178,000
Net income for the year.....	407,296	829,787
Retained earnings (deficit), beginning of year.....	378,006	(423,680)
	<u>785,302</u>	<u>406,107</u>
Dividends on common shares.....	117,749	28,101
Retained earnings, end of year.....	<u>\$ 667,553</u>	<u>\$ 378,006</u>
Earnings per share:		
Basic —before extraordinary item.....	<u>\$.28</u>	<u>\$.49</u>
—net income for the year.....	<u>\$.28</u>	<u>\$.63</u>
Fully diluted—net income for the year.....	<u>\$.24</u>	

Basic earnings per share are based on 1,456,611 shares being the weighted average number of common shares outstanding during the year (1972—1,317,233).

Fully diluted earnings per share are based on 1,793,304 shares assuming conversion of all of the deferred shares and exercise of all options outstanding, and recognition of imputed earnings on cash received therefrom (note 5).

(See accompanying notes to financial statements)

SPAR AEROSPACE PRODUCTS LTD.

(Incorporated under the laws of Canada)

Consolidated Balance

ASSETS

	1973	1972
Current:		
Cash and short term deposits.....		\$ 756,150
Accounts receivable.....	\$ 3,364,310	3,757,921
Inventories, less advance payments (note 2).....	2,637,359	1,627,936
Prepaid expenses.....	44,172	58,119
Total current assets.....	6,045,841	6,200,126
Machinery, tooling and equipment—at cost (note 3).....	3,628,522	2,768,037
Less accumulated depreciation and amortization.....	1,176,096	874,856
Net machinery, tooling and equipment.....	2,452,426	1,893,181
Deferred development costs less accumulated amortization.....	580,333	383,645
	<u>\$ 9,078,600</u>	<u>\$ 8,476,952</u>

Auditors' Report

To the Shareholders of
SPAR AEROSPACE PRODUCTS LTD.:

We have examined the consolidated balance sheet of Spar Aerospace Products Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
March 6, 1974.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

et, December 31, 1973

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current:		
Bank indebtedness (note 4).....	\$ 243,135	
Accounts payable and accrued charges.....	2,401,466	\$ 2,878,122
Employee deductions payable.....	181,283	185,311
Income taxes payable.....	134,063	
Sales and other taxes payable.....	18,318	107,927
Current portion of long term debt (note 4).....	307,185	291,803
Total current liabilities.....	3,285,450	3,463,163
Long term debt (note 4).....	1,084,765	980,432
Deferred income taxes.....	706,000	442,000
Shareholders' equity:		
Capital stock (note 5).....	3,334,832	3,213,351
Retained earnings.....	667,553	378,006
Total shareholders' equity.....	4,002,385	3,591,357
	<u>\$ 9,078,600</u>	<u>\$ 8,476,952</u>

On behalf of the Board:

 Director

 Director

(See accompanying notes to financial statements)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1973

	1973	1972
Working capital was provided by:		
Operations—		
Net income for the year.....	\$ 407,296	\$ 829,787
Add income charges not affecting working capital:		
Depreciation and amortization.....	312,412	277,922
Deferred development amortization.....	199,200	120,101
Deferred income taxes.....	264,000	442,000
Losses on disposal of machinery and equipment.....	4,656	10,909
	1,187,564	1,680,719
Issue of capital stock (note 5).....	121,481	83,054
Long term debt assumed under Government Industrial Assistance Program (note 3)....	411,518	
Term bank loan.....		1,000,000
Proceeds on disposal of machinery and equipment.....	13,709	12,734
	1,734,272	2,776,507
Working capital was used for:		
Acquisition of machinery and equipment net of Government grants (note 3).....	890,021	132,215
Deferred development costs.....	395,889	200,000
Reduction of long term debt.....	307,185	340,170
Dividends on common shares.....	117,749	28,101
Acquisition of shares of Astro Research Corporation less net current assets acquired of \$186,605.....		68,709
	1,710,844	769,195
Increase in working capital.....	23,428	2,007,312
Working capital, beginning of year.....	2,736,963	729,651
Working capital, end of year.....	\$2,760,391	\$2,736,963

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements

December 31, 1973

1. Accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the company and all subsidiary companies.

Inventories

Inventories of raw materials and finished goods are valued generally at the lower of cost, applied on a moving average basis, and market value determined on the basis of replacement cost or net realizable value, whichever is lower. Work in process represents contracts valued at estimated sales value calculated on the percentage of completion basis where the work has advanced sufficiently to warrant such a valuation, and contracts in the initial stages which are valued at cost. Under the percentage of completion method, revenue is accrued as the work is performed and provision is made for any anticipated losses where the estimate of total costs on a contract indicates a loss.

Research and development costs

The company follows the practice of expensing all research and development expenditures as incurred with the exception of:

- (a) costs related to the manufacture of equipment for development purposes which are capitalized and included as machinery, tooling and equipment, and
- (b) certain development costs related to the initial manufacture of new products which are deferred and amortized over a period of five years commencing in the year in which the expenditure is incurred. Should the company determine that no future benefit will accrue on a program, the costs of such program will be totally written off at that time. Development costs are claimed for income tax purposes as incurred.

Machinery, tooling and equipment

The cost of machinery and equipment comprises the cost to the company after deduction for related Government grants.

The company records depreciation and amortization on a straight line basis at the following rates:

10% for machinery and fixtures

33⅓% for tooling and automotive equipment

Income taxes

The company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation, amortization and other charges reflected in the statement of income rather than the related amounts claimed as deductions in the company's tax return.

Inventories

Inventories are classified as follows:

	1973	1972
Work in process less advance payments in 1973 of \$30,700 (1972—\$31,730).....	\$2,351,317	\$1,281,405
Raw materials, parts and supplies.....	268,518	300,713
Finished goods.....	17,524	45,818
	<u>\$2,637,359</u>	<u>\$1,627,936</u>

3. Machinery and equipment

The company has acquired certain machinery and equipment under the D.I.T.C. Government of Canada industrial assistance program whereby half of the purchase price was received as a grant (\$411,518 in 1973) and the balance as an interest-free long term loan (see note 4).

Long term debt

	Total liability	Portion due in 1974 shown in current liabilities	Balance owing
Non-interest bearing loans from D.I.T.C., Government of Canada, for the purchase of machinery and equipment repayable in annual instalments to 1978 at which time the company acquires full title to the assets.....	\$ 591,950	\$157,185	\$ 434,765
Term bank loan bearing interest at $1\frac{1}{4}\%$ above the prime rate and payable in quarterly instalments to December 31, 1977.....	800,000	150,000	650,000
	<u>\$1,391,950</u>	<u>\$307,185</u>	<u>\$1,084,765</u>

The term bank loan is secured by a demand debenture in the principal amount of \$3,000,000 that carries a floating charge on all unencumbered assets of the company. Under the debenture, the company is required, among other things, to maintain an excess of current assets over current liabilities of not less than \$1,500,000 and to meet certain ratio tests of current assets to current liabilities and indebtedness to shareholders' equity. Interest charges on the term bank loan amounted to \$77,676 in 1973 and \$36,374 in 1972.

The company in addition has a line of credit with its banker for day to day purposes against which a general assignment of the accounts receivable and inventories has been pledged as collateral.

5. Capital stock

During the year 75,500 common shares were issued upon the conversion of 500 first and 75,000 second deferred shares and the payment of cash of \$75,250. The remaining 50,000 authorized and unissued first deferred shares were cancelled. In addition, 28,250 common shares were issued for cash of \$46,231 upon the exercise of stock options.

The following table details the capitalization of the company:

	Authorized shares	Issued and outstanding December 31, 1973	
		Number	Amount paid in
Common shares without nominal or par value.....	2,000,000	1,508,804	\$3,332,582
Second deferred shares without nominal or par value.....	125,000	75,000	750
Third deferred shares without nominal or par value.....	200,000	150,000	1,500
	<u>2,325,000</u>	<u>1,733,804</u>	<u>\$3,334,832</u>

Deferred shares

The second deferred shares are convertible at anytime on the basis of one deferred share plus cash of \$1.00 for one common share.

The third deferred shares are convertible on or after April 30, 1974, on the basis of one deferred share plus cash of \$1.50 for one common share.

Deferred shares are eligible for dividends in each year following that in which the consolidated net profit of the company, after tax, exceeds, in the case of the second deferred \$300,000 and the third deferred \$400,000. If declared, dividends on the second deferred shares are restricted to the dividends paid on the common shares in the preceding fiscal year of the company. Dividends on the third deferred shares are restricted to the dividends paid on the second deferred shares in the preceding year. Therefore, in 1974, dividends on the second deferred shares, if declared, would be restricted to \$.08 per share while no dividend could be paid on the third deferred shares.

The second deferred shares carry one vote and the third deferred shares carry three votes per share.

Stock option plan

Under an incentive stock option plan, there are outstanding options to full-time officers and other employees to purchase common shares of the company at prices ranging from \$1.30 to \$4.72 per share. These options may be exercised at various periods through to 1981. During the year options on 23,000 shares were granted, options on 28,250 were exercised for cash of \$46,231 and options on 1,000 shares were forfeited on termination of employment.

At December 31, 1973, 59,500 common shares were under option including 16,000 common shares under option to officers of the company.

Common shares reserved for future use

284,500 common shares are reserved for future issue of which 225,000 are reserved for conversion of the second and third deferred shares and 59,500 for the exercise of the outstanding stock options.

• **Business categories**

Revenues in each of the company's major categories of business are as follows:

	1973	1972
	(000's)	(000's)
Repair and overhaul.....	\$ 8,787	\$ 7,070
Engineering.....	6,447	6,013
Manufacturing.....	3,256	2,760
	<u>\$18,490</u>	<u>\$15,843</u>

• **Lease commitments**

The company leases its Caledonia Road facility under a 20 year lease through 1989 for an annual rental of \$318,000.

• **Pension plans**

The company has funded pension plans covering substantially all of its employees. The contributions by employees together with those made by the company are deposited with trustees according to the terms of the plans. Pensions at retirement are related to remuneration and/or years of service. The amount charged to income (including payments to Government pension plans) was \$390,442 (1972—\$327,685) which includes amortization of prior service costs.

Unfunded prior service pension costs of \$249,000 (including unfunded vested benefits of \$110,000) will be funded on a straight line basis over the next 15 years.

• **Directors' and officers' remuneration**

The aggregate remuneration paid by the company to its nine directors, excluding salaries as officers, amounted to \$34,493 (1972—\$13,697). The aggregate remuneration paid to its eleven officers, as officers, and one past officer amounted to \$326,816 (1972—\$278,968). Three officers are also directors of the company.

10. LIM shared-cost program

During 1973, the company began a shared-cost program with the Federal Government for the development of linear induction motor (LIM) propulsion systems. The program involves total costs of \$3,632,000 over a four year period with assistance of approximately \$2,500,000 from the Government of which \$1,816,000 will be in the form of a grant while the remainder may be repayable in the event of future sales of the developed product. Such possible repayments totalled \$94,000 at December 31, 1973. The company's share of costs incurred amounted to \$62,000 at December 31, 1973 and is included in the deferred development costs.

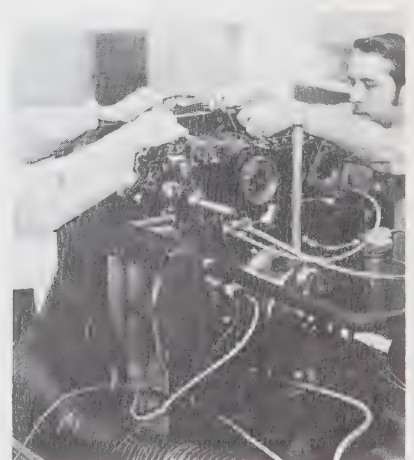
11. Comparative figures

Certain of the 1972 figures have been reclassified to conform with the 1973 presentation.

This is one of the 20 ft. long solar arrays which will generate 1 kw of electric power for Canada's Communications Satellite (CTS) due for launch in 1975. The "sail" was photographed in *Spar*'s spacecraft assembly area.



Before delivery to General Electric Company, Lynn, Mass., T700 gearboxes are tested on this stand, specially designed and manufactured by *Spar*.



SPAR AEROSPACE PRODUCTS LTD.

Six year review

	1973	1972	1971	1970	1969	1968
Earnings (loss) per share						
Basic						
—before extraordinary items.....	\$.28	\$.49	\$.27	(\$.30)	\$(.51)	\$.06
—Net income (loss) for the year.....	\$.28	\$.63	\$.54	(\$.30)	(\$.69)	\$.02
Fully diluted						
—before extraordinary items.....	\$.24	\$.38	\$.20			
—Net income for the year.....	\$.24	\$.48	\$.41			
Dividends paid per share.....	\$.08	\$.02				
Book value per share—fully diluted.....	\$2.23	\$2.03	\$1.54	\$1.14	\$1.39	\$1.27

	(\$000's)					
Revenues.....	18,490	15,843	12,205	9,124	7,148	5,436
Earnings (loss) for the year:						
—before extraordinary items.....	407	652	334	(371)	(556)	56
—Net income (loss) for the year.....	407	830	671	(371)	(747)	22

	(\$000's)					
Working capital.....	2,760	2,737	728	314	1,008	1,535
Long term debt.....	1,392	1,272	610	848	1,146	—
Shareholders' equity.....	4,002	3,591	2,707	2,035	2,393	1,785
Number of shareholders.....	2,187	2,198				
	1973	1972	1971	1970	1969	1968



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SPAR AEROSPACE PRODUCTS LTD.

Statement of Consolidated Source and Use of Funds (Unaudited)

	<i>Six months ended June 30, 1973</i>	<i>Six months ended June 30, 1972</i>
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Source of Funds:

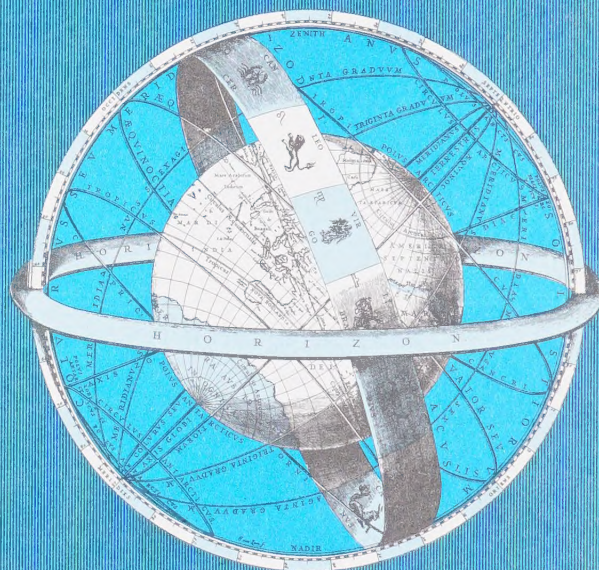
Net income for the period before depreciation and other non-cash outlays	\$ 523,599	\$ 594,347
Issue of capital stock	80,439	11,950
Long-term debt assumed under Government Industrial Assistance Program	113,822	—
Term bank loan	—	1,000,000
Increase in deferred income taxes	233,000	159,000
Total source of funds	<u>950,860</u>	<u>1,765,297</u>

Use of Funds:

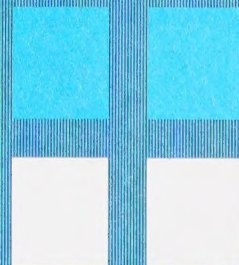
Acquisition of shares of Astro Research Corporation	—	254,821
Less net current assets acquired	—	176,800
Cost of fixed assets	—	78,021
Other additions to fixed assets (net of Government grants in 1973 - \$113,822, 1972 - nil)	398,512	46,387
Deferred development costs	199,999	—
Repayment of long-term debt and provision for instalments due currently	97,784	165,817
Dividends paid	57,887	—
Total use of funds	<u>754,182</u>	<u>290,225</u>
Increase in working capital	196,678	1,475,072
Working capital, beginning of period	2,736,963	727,771
Working capital, end of period	<u>\$2,933,641</u>	<u>\$2,202,843</u>

SPAR

AEROSPACE PRODUCTS LTD.



Interim Report
for the six months
ended
June 30, 1973



SPAR AEROSPACE PRODUCTS LTD.

825 CALEDONIA ROAD, TORONTO, ONT. M6B 3X8

To the Shareholders:

The first six months of 1973 were a period of consolidation following the rapid expansion of your company throughout 1971 and 1972. In the six months ended June 30, 1973, SPAR's net income after tax for the period was \$258,774 compared to \$289,801 in 1972. In 1972 there was, in addition, an extraordinary item of \$130,000 representing a recovery of income taxes due to a carry-forward of a loss. Revenues rose to \$8,719,137 from \$7,285,069 for the comparable 1972 period.

Notwithstanding the gratifying increase in revenues and the continuing favourable results from our overhaul and repair programs, SPAR's earnings, as compared to the same period in 1972, were adversely affected by a temporarily lower-margin work content in the engineering and manufacturing divisions.

Manufacturing sales declined during the second quarter. This was due to the reduction in work load following the successful completion of the first phase of the General Electric Company's T-700 program for helicopter accessory gearboxes. The tempo in the manufacturing division will, however, increase significantly in the second half of the year with the commencement of deliveries on the Bell Viking transmission systems, the initiation of the second phase of the T-700 program and the build-up of work in support of the recently acquired gearbox program for General Electric's J-85 aircraft engine.

Throughout the first half of the year, activity on SPAR's part of the CTS program (Canada's Communication Technology Satellite) was at a lower level than anticipated due to delays in settling the final specifications governing the satellite's sub-systems. Work in this area is also anticipated to increase during the second half of the year.

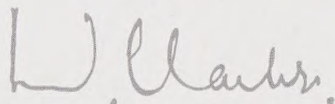
The seven-man LIM engineering team which joined Spar in April is now located in Toronto. This team provides SPAR with the capability of developing linear motors for the emerging intra-city rapid transit systems such as are proposed for the Province of Ontario. In view of the exciting potential of this world-wide market, your company has initiated a long term development program which includes the installation of a linear motor test track on SPAR's plant site.

The company's mid-year report one year ago stated: "Our infra-red remote sensing (passive acquisition) equipment has performed most satisfactorily in operational tests with the Canadian and United States navies and governmental considerations as to the next phase of this program should take place within the next few months." It is now understood that these considerations have resulted in a favourable assessment of the potential of the equipment and the company anticipates receiving shortly authority to proceed with a program directed at developing it to operational status.

During the first six months, orders received have exceeded billings by over 50%, thus your management looks to a period of further expansion of revenues together with improvement in earnings commencing towards the end of the third quarter of the current year and continuing into 1974.

At a meeting held August 9, 1973 the board of directors declared a dividend of two cents per common share for the third quarter of the current year. The dividend will be paid September 14, 1973, to shareholders of record August 28, 1973.

On behalf of the board,



Toronto, Ontario
August 9, 1973

L. D. CLARKE, President

SPAR AEROSPACE PRODUCTS LTD.

Statement of Consolidated Earnings (Unaudited)

CanCorp

	Six months ended June 30, 1973	Six months ended June 30, 1972
Revenues	✓ \$8,719,137	\$7,285,069
Income from operations	475,304	578,801
Provision for income taxes	216,530	289,000
Income before extraordinary item	✓ 258,774	289,801
Income tax reduction realized on carry-forward of a loss	—	130,000
Net income for the period	✓ \$ 258,774	\$ 419,801
Earnings per share:		
Basic		
—Before extraordinary item	✓ \$.18	\$.23
—Income for the period	✓ \$.18	\$.33
Fully diluted		
—Before extraordinary item	\$.15	\$.17
—Income for the period	\$.15	\$.24

Basic earnings per share calculated on 1,457,034 (1972—1,261,062) shares being the weighted average number of common shares outstanding.

Fully diluted earnings per share calculated on 1,794,304 (1972—1,760,054) shares assuming conversion of all the deferred shares and exercise of all options outstanding, after recognition of imputed earnings on cash payments that would be received on the issue of common shares.

Note: Income taxes have been provided retroactive to January 1, 1973 in accordance with recent legislation regarding manufacturing and processing profits.